DOCUMENT RESUME

ED 460 269 CE 078 110

AUTHOR Tyson, Harriet
TITLE Young Person's Guide to Managing Money.
INSTITUTION American Youth Policy Forum, Washington, DC.
ISBN ISBN-1-887031-57-X
PUB DATE 1998-00-00
NOTE 41p.; For companion to this guide, CE 078 109.
AVAILABLE FROM American Youth Policy Forum, 1836 Jefferson Place, N.W., Washington, DC 20036-2505 ($2). Web site: http://www.aypf.org; e-mail: apyf@apyf.org.
PUB TYPE Guides - Classroom - Learner (05I)
EDRS PRICE MF01/PC02 Plus Postage.
DESCRIPTORS *Banking; *Budgeting; *Consumer Education; *Credit (Finance); Health Insurance; *Housing; Information Sources; *Money Management; Secondary Education
IDENTIFIERS Social Security

ABSTRACT

This booklet gives young people who are just starting out on their own with a small income the information they need to manage their money. The following topics are discussed: how individuals can determine how much money they will have to live on; how to read a pay stub; Social Security and the future; the importance of putting money in the bank (advice for individuals who are "living on the edge," credit unions; advice for individuals with a little money to spare); considerations in choosing a bank ("no frills" accounts, direct deposit, automated teller machine cards, debit cards, automatic savings deposits); advice on managing savings accounts and checking accounts, establishing credit, borrowing money from banks (student loans), and health insurance; the importance of budgeting before going on a spending spree (analyzing expenses and personal spending and making and living within budgets); shopping with cash versus credit (credit costs, credit traps, shopping, annual percentage rates); steps to take when rejected for a loan (credit reports, credit repair clinics); bills and taxes; living arrangements (living with one's family, paying rent, living with roommates). Concluding the booklet are the addresses and phone numbers of six important sources of advice and help. (MN)

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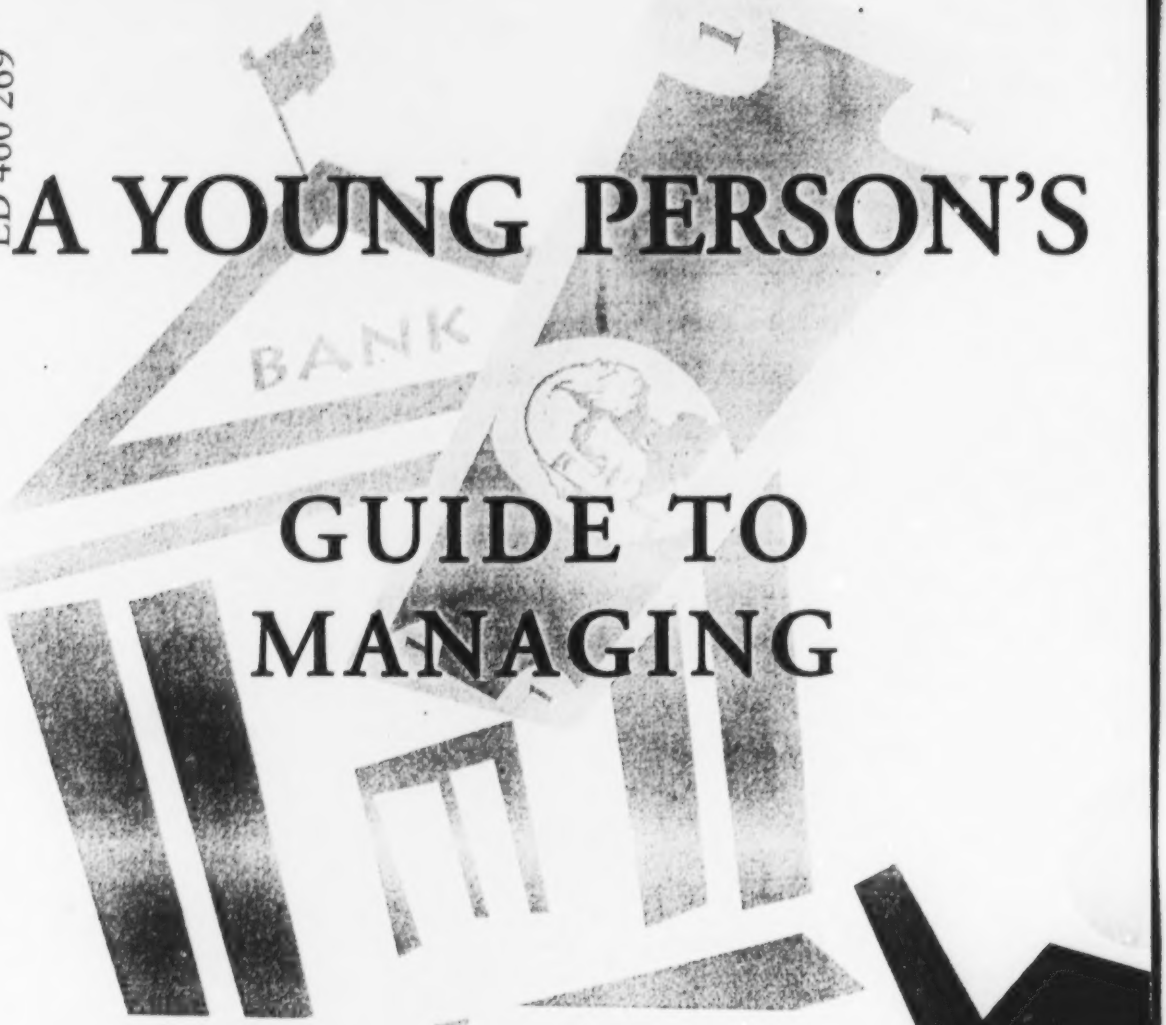
A YOUNG PERSON'S GUIDE TO MANAGING MONEY



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Why This Guide?

The American Youth Policy Forum is a professional development organization providing learning opportunities for policy makers working on youth issues at the local, state and national levels. The goal of our non-partisan Forum is to provide participants with information, insights and networks that will help them in their work on education, training and transition-to-employment, and national and community service policies and practices contributing to the development of healthy and successful young people.

Forum participants include Congressional aides, officials of various federal agencies, policy makers from national non-profit associations and advocacy organizations, and state and local government officials.

One essential component of youth development is knowledge about how to manage money responsibly, how to make intelligent choices with one's earnings, banking, purchases and savings. Unfortunately, people of all ages and social strata—not just young people—frequently get into serious trouble for lack of such basic economic knowledge.

To help avoid common pitfalls in the handling of money, the Forum asked **Harriet Tyson** to compile *A Young Person's Guide to Managing Money.* Harriet's very readable work was "field tested" by young people in several cities and is embellished by cartoons drawn by student **Sarah Tellez** of the American Institute for Learning Charter School in Austin, Texas.

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A Young Person's Guide to Managing Money
Washington, DC: American Youth Policy Forum, 1998

ISBN: 1-887031-57-X

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1001 Connecticut Avenue, N.W., Suite 719
Washington, D.C. 20036-5541

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About the Author

Harriet Tyson is an education writer, researcher and consultant. She is the author of "A Conspiracy of Good Intentions: America's Textbook Fiasco" (Council for Basic Education, 1988) and "Who Will Teach the Children: Progress and Resistance in Teacher Education" (Josey-Bass, 1994), as well as dozens of articles and reports on teachers and teaching, textbooks and curriculum. She is a former high school teacher and was a member and president of the Montgomery County (Maryland) Board of Education. She has worked as a writer, editor, project manager or researcher for a number of Washington, DC-based organizations, including the Council for Basic Education, Institute for Educational Leadership, Association for Supervision and Curriculum Development, Council of Chief State School Officers and RAND Corporation.

Out on Your Own for the First Time

If you are young and just starting out on your own with a small income, this guide is for you. The advice in this booklet will help you make the most of your money so that you can meet your basic living expenses, stay out of financial trouble, plan for your future, and still have some money left over for fun.

To manage your money well, you need to know the basics about banking, bill paying, and record keeping. You need to know how to be a thrifty shopper. You need a list of toll-free phone numbers to call when you want advice or help with money problems. Most of all, you need to earn a reputation in your community as a responsible manager of money.

The first step in managing your money is to find out how much money you will have to live on. What you earn (your gross pay) is not what you take home (your net pay) because your employer, by law, must make **deductions** of a portion of your salary each pay period.

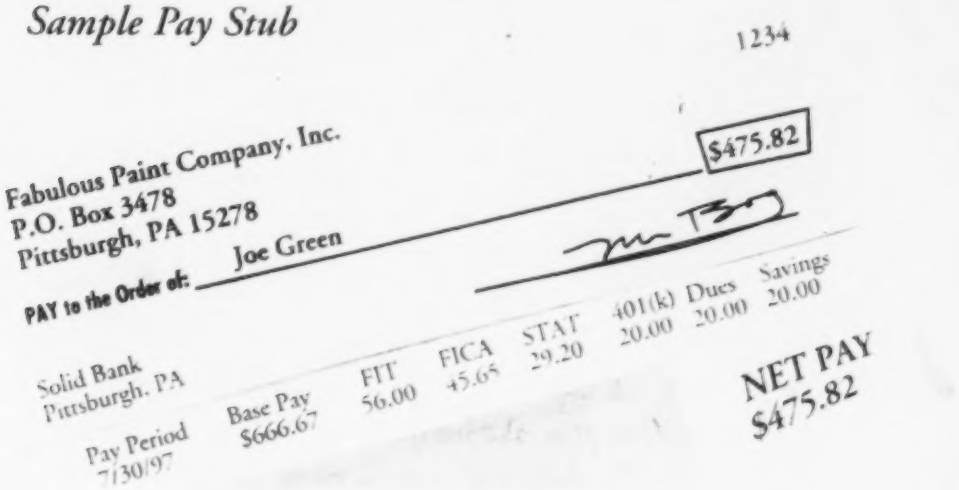
Deductions from your gross pay are used to pay your taxes, and sometimes for health insurance and retirement plans. To get a true picture of your money situation, your **pay stub** is the place to begin.

DEDUCTION: A REQUIRED OR VOLUNTARY REDUCTION FROM YOUR GROSS EARNINGS TO PAY FOR SPECIFIC PURPOSES

How to Read Your Pay Stub

Every payday, your paycheck will be attached to a pay stub listing the various deductions from your salary. This sample pay stub for a fictional Joe Green shows deductions that might appear on your pay stub.

Sample Pay Stub



Deductions for Federal Income Tax, Social Security, and Medicare

The federal government requires your employer to deduct a part of your salary each pay period. The biggest deduction from your paycheck will be for federal income taxes (FIT). The more you earn, the bigger the deduction; the less you earn, the smaller the deduction. (If you are single and earn less than $6,400 a year, your employer won't deduct for federal taxes.) Because the taxes you owe are deducted a little at a time, you may not have to pay any income tax in April, and you may even be eligible for a refund if you earn very little, or if you have to pay for child care.

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Your federal income taxes pay for national defense, social programs for the needy and the sick, national parks, environmental protection, and many other services.

The law also requires your employer to deduct an amount for Social Security, which will give you a small income when you retire. On your pay stub, it is called FICA (Federal Income Contribution Act). Your employer also deducts for Medicare—medical insurance when you are old and not working.

Your Future and Social Security

Perhaps you are having doubts about the payroll deduction for Social Security because you have been told that the system will "run out of money" by the time you reach retirement age. Every industrialized nation in the world provides some kind of assistance to older citizens, and it is likely that the United States will try to provide a minimum level of support for the elderly. Whether federal policy makers find a way to maintain the present system in long-term stability, or will create a new one, a decent retirement income depends on your taking greater personal responsibility for your retirement years. Therefore you will need to think now about saving money for the things you want, including a secure retirement.

State and Local Taxes: Your employer will also deduct money from your paycheck for state and local taxes, which pay for law enforcement, public health, education, transportation, the water and sewer systems in your community, and other services.

Health Insurance: Some employers provide a health insurance plan and either split the cost with their employees or pay the entire costs themselves. But Joe's employer does not, so there is no deduction on his paystub for health insurance. If your company doesn't have a health plan, you will need to find an inexpensive way to protect yourself from a medical disaster (more on that later).

Retirement Plan: Many, but not all, employers require their workers to contribute to a retirement plan. Joe's paystub

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shows a deduction for the company retirement plan, called a 401(k). His company pays $60 each pay period and deducts another $20 from Joe's paycheck, which together places $80 into a fund for Joe's retirement.

Union Dues: A union represents the employees in Joe's company, and has negotiated a $20 dues deduction with the employer. Employee unions bargain with the employer, seeking the best possible package of wages, benefits, hours, and working conditions for the employees. Joe doesn't object to the dues deduction because he believes the union will represent him if he thinks he's been treated unfairly. Not all companies are unionized and not all employees choose to join them when they exist.

Savings Plan: Joe's paystub shows a $20 deduction for the company savings plan. Different companies offer various savings plans. Some, for example, double the amount of money that an employee chooses to deposit in his savings account. For every $20 Joe puts in, the company puts in another $20. Some employers don't offer any savings plan at all. You should decide how to save your money by looking at several plans and choosing the best one for you.

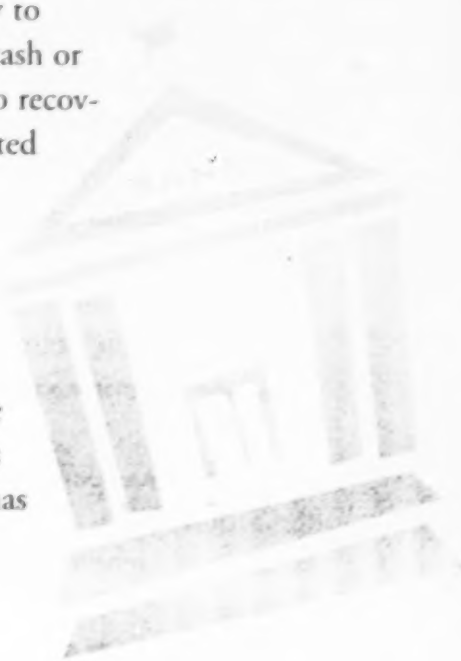
What is left over after all the deductions is Joe's *take home pay,* or *net pay.* Joe has to find a way to manage it, stretch it as far as possible, and build a better future. So will you.

Other Types of Paychecks: If you work at odd jobs, are a sub-contractor, or have your own business, the checks you get for your work won't show any deductions. But you will still have to pay your federal and state tax and contribute to social security and Medicare. Self-employed people have to file a Quarterly Estimated Tax Return, which means that every three months, you must estimate what you'll owe at the end of the year and pay one-quarter of it at that time. Being your own boss can be nice, but working for yourself means that you have to take over the responsibilities that bosses usually have—keeping records and paying taxes.

Should You Put Your Money in a Bank?

A Safe Place for Your Money

Cashing your paycheck at a check-cashing shop (which usually charges several percent to cash the check) and keeping the cash under your mattress isn't a very safe way to handle your money. You can lose your cash or it can be stolen, and you have no way to recover your money. You might also be tempted to spend it on things you don't need.



Your money is safe in almost any bank or credit union because the federal government insures your deposit through the Federal Deposit Insurance Corporation (FDIC). When you choose a bank or a credit union, make sure it is FDIC-insured. Even if an FDIC bank has been poorly managed and goes out of business, you will still get your money back, thanks to the insurance.

If You're Living on the Edge

If you are living on the edge, with nothing left over after rent, food, clothing, and transportation, putting your money in a checking account might make you even poorer. Banks charge fees to handle your account, and most of them require you to keep at least $50 to $100 in your account at all times. If your account balance falls below the required balance by the end of the month, the bank may fine you or even close your account.

But even if you have only a few dollars left over each pay period, you should start a **savings account** to get into the important habit of saving.

SAVINGS ACCOUNT: A BANK ACCOUNT THAT PAYS YOU INTEREST ON YOUR MONEY AND LIMITS THE NUMBER OF CHECKS YOU CAN WRITE EACH MONTH

Having a savings account has many advantages:

1. You will have a place to cash your salary check for free.
2. You will earn **interest** on the money in your account. The interest paid by most banks is small (two or three percent), but if you keep your money in a sock, you're not earning any money at all.

INTEREST (EARNED): THE MONEY THE BANK PAYS YOU FOR "LENDING" IT THE MONEY IN YOUR ACCOUNT

3. You will gradually build up a "nest egg" for an emergency, like losing your job or getting sick.
4. When you need to borrow money from the bank, the bank will think of your savings account as security for the loan. (If you can't make your loan payments, the bank can use the money in your savings account to pay itself back.)

Before you open a savings account at a bank, you should shop around to find the one with the lowest required minimum balance and highest interest rate on savings. If you are putting aside only a few dollars a month, you may have to wait until you have saved up enough money to satisfy the minimum balance requirement—usually about $50. Also, find out how much the bank charges to handle your account, or if the account is free. If the service fees will eat up all your earned interest, then you should hunt for a friendlier bank.

Credit Unions: An Alternative

A credit union is a non-profit bank run by its members. If you have an account at a credit union, you are a member of that credit union. Banks are businesses that have to make a profit for the stockholders in the bank; credit unions simply have to make enough money to pay for the cost of running the institution. As a result, credit unions charge low fees, or no fees, for banking services. You can open a **share account** at a credit union with only a few dollars.

SHARE ACCOUNT: A SAVINGS ACCOUNT AT A CREDIT UNION

Many government agencies and labor unions sponsor credit unions. So if you work for federal, state, or local government, including the armed services or the public schools, or if you are closely related to somebody who works for government or who served in the military, you are probably eligible to join a credit union. If you or a family member belongs to a labor union, you probably have access to a credit union. Even your church may sponsor a credit union.

A savings account at a bank or a share account at a credit union is a major way to get ahead in life. Simply having an account helps you establish yourself as a financially responsible person in the community.

If You Have a Little Money to Spare

If you have a reasonable salary, it's a good idea to open a **checking account** in addition to a savings account. When you have enough money to maintain the minimum balance, it's a lot easier to pay your bills by check than in cash. Also, when you pay your bills by check (your rent, for example), you have proof that you paid it because the canceled check comes back to you in your monthly bank statement.

CHECKING ACCOUNT: A BANK ACCOUNT THAT ALLOWS YOU TO WRITE CHECKS TO PAY BILLS AND MAKE PURCHASES

At a credit union, a checking account is called a **share draft account.** If you can find one to join, it's an advantage because you don't have to maintain a minimum balance.

SHARE DRAFT ACCOUNT: A CHECKING ACCOUNT AT A CREDIT UNION

How to Pick a Bank

Before opening up a bank account, there are several issues to consider. Different banks offer different services. You need to find the services that are right for you. First, find out when the bank will credit your account with the check you plan to deposit. Some banks put a "hold" of ten working days on your check, which means that you can't use your money for up to two weeks, counting weekends. If your paycheck comes from out-of-state, getting access to your money may take even longer. If you can't afford to wait that long to get access to your money, then you should look for another bank.

Many banks give you immediate credit for a payroll check—the kind Joe Green gets. Still others will credit your account immediately if your employer uses the same bank. So if you are having trouble finding a bank that will give you immediate credit, ask the finance people in your company where they deposit their checks, and explore doing business with the bank they use.

When you open up a bank account in a new city, the bank probably won't give you access to your money until your check clears, which could take weeks. So if you are moving from one city or state to another, and will need money right away to pay for rent or food, bring a **certified check** or **postal money** order with you to open up your new account. Banks will treat either of those as if they were cash money.

CERTIFIED CHECK: A CHECK ISSUED AND GUARANTEED BY A BANK BASED ON FUNDS IN YOUR ACCOUNT

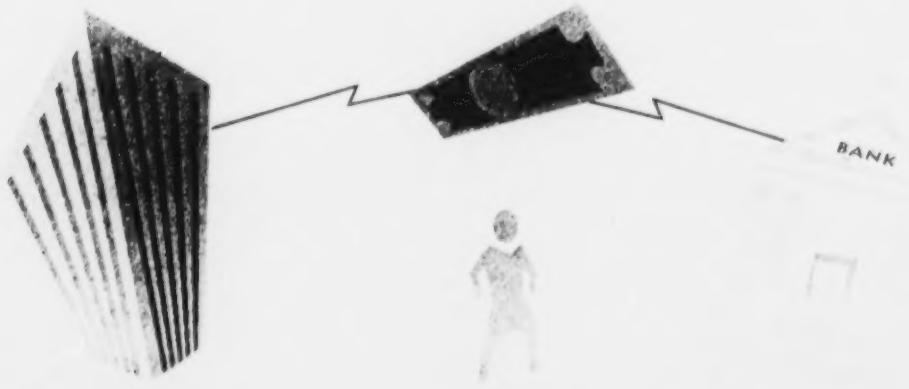
POSTAL MONEY ORDER: A CHECK ISSUED BY THE POST OFFICE IN EXCHANGE FOR CASH MONEY

A "No-Frills" Account

When you have found a bank that will credit your paycheck right away, find out if the bank offers a "no frills account." A "no-frills" account doesn't require as large a minimum balance as a regular account, and doesn't charge high service fees. The catch is that you may only write 10 (or fewer) checks a month for free and must pay for any additional checks written. That limitation saves the bank money so it is able to offer you this lower-cost account. If you are just starting out in the world of work, that limitation shouldn't be a problem because you probably won't be writing more than 10 checks a month.

Direct Deposit

Rushing to the bank on pay day to deposit your check usually means standing in line with a lot of impatient people who are also trying to deposit their paychecks. You can save yourself a trip to the bank by arranging with the bank and your employer for "direct deposit." If you sign an authorization form provided by the bank, and if your employer is set up to do it, your paycheck will be deposited by electronic transfer. That way, your checking account is credited immediately with your paycheck and the money in your savings account starts earning interest right away. The most important benefit is that many banks don't charge service fees if you use direct deposit and some banks offer higher rates of interest if you choose this option.



Yes or No to an ATM card?

Your bank may offer you an ATM card (a plastic card for the Automatic Teller Machine). With an ATM card, you can withdraw cash from your account by inserting the card into an ATM machine on the street. It's a great convenience to be able to get cash at any hour of the day or night, and saves you the trouble of standing in line at the bank waiting for a teller to cash your check. But there are *big* pitfalls, too, especially for people with big needs and a small income:

It's so easy to get money with an ATM card that lots of people take more money out of their account than they have in the bank, and then suffer a stiff fine or high interest charges for overdrawing their account. Credit counselors who work with people with money troubles say that ATM cards are the biggest budget busters. If you are barely scraping by, or don't trust yourself to keep your spending in line with your income, you should refuse the ATM card.

Yes or No to a Debit Card?

Many banks now offer debit cards which you can use to make purchases at stores. Debit cards look like credit cards and usually carry the *VISA* or *MASTERCARD* logos. You use a debit card to make purchases just like a credit card, but the amount of your purchase is automatically deducted from your bank account. One advantage of a debit card is that you won't receive any bill in the mail from the store and you won't have to write a check or buy a stamp to mail it. You can also make a purchase even when the merchant won't accept your check.

But there are disadvantages too. If you forget to record your debit card transactions in your checkbook record, you can easily overdraw your account. A more serious disadvantage is that a debit card is the nearest thing to cash. If your card is lost or stolen, anyone can use it to go out on a big spending spree and charge it all to your bank account. You may have a very hard time recovering your money. So think about your spending habits and whether you lose or misplace valuables easily. In

many cases, it would be better to refuse the bank's offer of a debit card.

Automatic Savings Deposits

Both banks and credit unions will automatically deduct whatever amount you decide to deposit into your savings or share account. Automatic savings deposits are a good way to make sure that you *pay yourself first.* If you don't trust yourself not to spend your whole paycheck, an automatic savings deposit is a good way to make sure you take care of yourself.

Managing Your Savings Account

A smart personal goal is to build up enough money in your savings account to support yourself for three to six months. If you raid your savings account whenever you have enough money for a new outfit or sports equipment, you will have a hard time accumulating enough to get the advantages of saving.

If you have a sufficient amount of money in a savings account, you can:

- Support yourself if you lose your job and can't find a new one right away,
- Handle a medical emergency,
- Use it for first and last months' rent when you get your own place or move to another one,
- Make a down payment on a car,
- Pay for repairs when your car breaks down, or
- Borrow money from the bank, using your savings account to secure the loan.

If you spend every penny you earn each month, you won't be able to do any of these things.

Keep Your Check Record Up-to-Date

Every checkbook comes with a **check record**, which helps you organize your record-keeping. There are blank spaces to write down the date and amount of both your deposits and withdrawals. On the right hand column, you keep a running tally of your balance by adding deposits and subtracting withdrawals from your previous credit balance.

Sample Check Record

DATE	NO.	TRANSACTION DESCRIPTION	✓	AMOUNT OF DEPOSIT	AMOUNT OF PAYMENT OR WITHDRAWAL	BALANCE
						612 33
3/17	19	ACME Foods			22 60	-22 60
		groceries				589 73
3/18	20	Chicago Auto			88 23	-88 23
		car repairs				501 50
3/18	21	Fashion Mart			65 90	-65 90
		sweater and slacks				435 60
3/21	22	Electric Company			21 20	-21 20
		monthly bill				414 40
3/31		Payroll Deposit		240 75		+240 75
						655 15
4/01	23	American Savings Bank			15 00	-15 00
		savings				640 15
4/01	24	Smith Apartments			300 00	-300 00
		monthly rent				340 15

If you don't write down each transaction, then you won't know your correct bank balance. When you don't know your balance, you can easily write checks you can't cover. If you keep forgetting to record the checks you write, then there are several things you can do to improve your record-keeping:

- ★ Some checkbooks contain carbon copies so you will have a copy of each check you write. Even if you forget to log the check into your check record when you write it, you will have a copy of the check to remind you at a later date.
- ★ If you've lost track of your balance, you can go to the ATM and get a print-out of your balance, or call the bank and ask for your balance. Most banks and credit unions provide this service at no charge.

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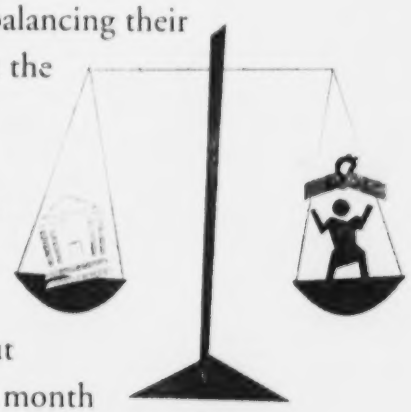
Beware of Overdraft Penalties

When you open an account, be sure to find out what the bank or credit union will charge if you overdraw your account. If you think there's even a chance that you might overdraw your account, and if a $50 fine would be a serious hardship, then you should either look for a bank with a smaller penalty or decide to keep a close eye on your balance.

Balance Your Checkbook

Each month, the bank will send you a statement that includes a print-out of all your transactions—checks, deposits, ATM withdrawals, fees, the interest you earned—plus all your cancelled checks. At that point, you should balance your checkbook immediately to see if there are any errors or omissions that could cause you serious problems.



Many people don't bother with balancing their checkbooks because they assume that the bank is better at math than they are. But that's not the whole story. You need to make sure that your deposits actually got to the bank and were properly recorded (especially your paycheck). Also, you need to find out whether all the checks you wrote last month have cleared the bank. If they haven't, your bank statement will show that you have more money than you really do.

Instructions for confirming your balance are usually printed on the back of your bank statement. It is a simple, step-by-step process. Even if you don't track down every missing penny, you should at least make sure that you and the bank agree on all the transactions, service charges, fines, and interest earned in a given month. Once you get the hang of it, this chore shouldn't take you more than 30 minutes a month.

Establishing Credit

If you ever want to borrow money or buy something on an installment plan, you need to establish a personal credit history, called a "credit rating." Once you have a steady job and an account at a bank or credit union, you can start building a credit rating. You can prove you are a good credit risk in many ways:

- ★ Maintain a good relationship with your bank or credit union. You are more likely to get a loan if you manage your account responsibly for a year or two.
- ★ Keep proof of steady employment. Save your paystubs for two or three years. You may need them as proof. If you are self-employed or work at odd jobs, you may have to establish your credit record in other ways, and it may take longer.
- ★ Keep proof of assets. If you own a car or other valuable items, keep the title to these goods in a safe place. Retain the most recent monthly statement from your savings account. Both of these documents can help you qualify for a loan or credit purchase.
- ★ Build a reputation for paying your bills on time. You will have a much easier time qualifying for a loan if you pay your rent, utility, and other bills on time. Loan officers and merchants will check with your landlord and credit bureaus to see if you have been responsible with your bills.
- ★ Maintain a good record with credit cards. Before getting any kind of credit card, you should have a fairly stable job so that you can make payments on your credit charges. If you don't already have a credit card, you might want to start out with a gasoline or department store card. Credit limits are usually lower for those kinds of cards, and the merchants are therefore more willing to give you one. If you have a savings account, your bank might give you a credit card, using your savings as security.

Not all credit card companies charge the same interest rates and annual service fees. Before you get a credit card, you should make sure you're getting the least expensive one. You can order a five-page pamphlet, "Choosing & Using Credit Cards," that will explain how to compare costs for the best deal. Send fifty cents (by check or money order), requesting Pamphlet 344C, to:

R. Woods
Consumer Information Center-6A
P.O. Box 100
Pueblo, Colorado 81002

Borrowing Money From a Bank

At some point in their lives, most people have to borrow money for major expenses like schooling, a car, or major appliances. Chances are that you, too, will need to borrow money for these things. But when you borrow money, you have to pay **interest** for the privilege of borrowing.

INTEREST: THE MONEY A LENDER CHARGES TO LOAN YOU MONEY, USUALLY A PERCENTAGE OF THE AMOUNT OF THE LOAN FOR A SPECIFIC PERIOD OF TIME

When you have established a good financial reputation, you can usually arrange for a low-interest loan from a credit union. While banks may charge more, your own bank's interest rate is likely to be much less than a car dealer or merchant might charge.

Student Loans

Loans for the costs of schooling are usually a good deal because lenders know that people with more education generally earn more, and will be able to repay the loan. The best deal for

low-income young people is a Stafford Loan, a program sponsored by the federal government. These loans can be obtained from many banks and credit unions.

Stafford Loans have reasonable interest rates, and you don't have to start paying back the **principal** on the loan until you finish school, although you may have to make interest payments.

PRINCIPAL: THE SUM OF MONEY YOU BORROW, APART FROM THE INTEREST CHARGED FOR BORROWING IT

If you can prove financial need and qualify for a subsidized Stafford Loan, you may even be excused from making interest payments until after you have finished your schooling. The time you have to pay off a student loan is usually long—sometimes as long as 10 years.

For more information on student loans, call:
Financial Assistance Center
1-800-433-3243

Ask for the pamphlet, "Student Guide to Financial Aid," and application forms.

Buying Health Insurance

If your employer doesn't provide a health plan, you will probably want to find some other way to get medical insurance or low cost treatment when you are sick or injured. If your income is low and you have a child, or if you are disabled, you can apply for Medicaid benefits through your city or county welfare or human services office. But if you are healthy and have no children, you will have to hunt for another solution.

The least expensive health insurance programs are "high deductible" plans. You pay all health costs up to a certain amount ($1,000 a year, for example), and the insurance company pays for any medical costs over that amount. But even high

deductible plans may cost $1,000 to $2,000 a year—too much for most low income workers. But if you can afford to pay the premiums, a high deductible policy is a good way to insure yourself against a medical disaster.

If you can't afford private insurance, you have other choices:

1. Community Health Centers in many communities, partly subsidized by the federal government, offer medical care for fees on a sliding income scale.
2. Public hospitals often provide free care to people who have no health insurance.
3. Free clinics where private doctors donate their time to serve patients who can't afford medical care.
4. Look for a job that has health benefits.

Living without health insurance is risky. Obviously, leading as healthy a life as possible and avoiding unnecessary risks, like careless driving or dangerous sports that could result in serious injury, is the way to go if you lack insurance coverage.

Budget Before Going on a Spending Spree

You have established yourself as a solid citizen and now you're ready for the good life. You have a credit card, and your mailbox is stuffed with offers from companies willing to give you more credit cards at outrageously high rates of interest. You could have six credit cards or more if you wanted them, and buy a stereo or sofa or gym membership on credit. Don't do it. One credit card, two at the most, is enough. For most purchases, you can save up the money. Or if you need the item right away, get a personal loan. Either way, making a budget and sticking to it is the best way to get the things you want. The steps below will make budgeting easier to do.[1]

Pay Attention to What You Spend

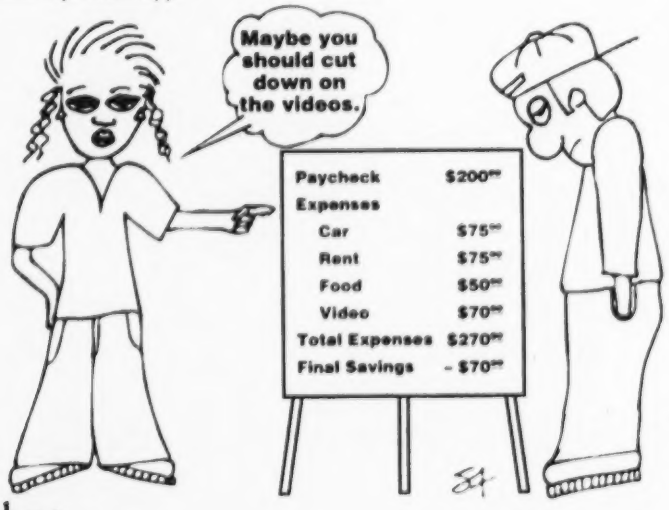
First, keep track of your expenses for at least one month, preferably for three because expenses may vary greatly from

[1] The advice on how to develop a budget has been adapted from "Six Easy Steps To A Budget You Can Live With," Consumer Credit Counseling Service of Greater Washington, Inc., Washington, D.C., 1991.

month to month. In addition to major items like rent and groceries, write down what you spend on small items such as coffee and soda, stockings and medicine, movies and CDs. When you total up what you spent for the month, don't forget to add a monthly share of the expenses you pay for every quarter or year, like insurance premiums, auto tune-ups, Christmas presents, or dental checkups.

Analyze Your Spending

Once you know where your money is going, you need to analyze your spending. Are you running up huge long distance phone bills? Maybe you need to write more letters and make fewer calls. Is your rent killing you? Maybe you need to move into a $200 a month group house and give up your $400 a month apartment. Are you spending $5.00 a week on sodas ($260 a year)? Maybe you need to drink more water and less soda. Do you waste groceries? Did you buy clothes that didn't fit? Maybe you need to shop more carefully. How long will it take you to reach your goal of three to six months savings? If it's too long, maybe you need to increase your rate of savings and cut back on your spending.



Make a Budget

To get started with your budget, tear out the sample sheet on the next page and use it to track your spending.

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Add Up Your Income From All Sources:

Payroll check (Net pay)	_____
Part-time job	_____
Unemployment compensation	_____
Disability payments	_____
Military reserve duty	_____
Public assistance	_____
Money from parents	_____
Interest on your savings	_____
Other income	_____
If married, add your spouse's net	_____
TOTAL NET INCOME	$_____

Add Up Your Monthly Expenses:

Savings (pay yourself first!)	_____
Rent	_____
Electricity	_____
Gas	_____
Telephone	_____
Groceries	_____
Household supplies	_____
Lunches out	_____
Snacks	_____
Dinners out	_____
Public transportation	_____
Auto payments	_____
Gasoline	_____
Car insurance	_____
Car maintenance and repair	_____
Parking	_____
Taxes (quarterly on part-time work)	_____
Child care/tuition	_____
Child support	_____
Clothing	_____
Laundry & dry cleaning	_____

Dental care	_____
Health insurance	_____
Uninsured medical costs	_____
Medicines	_____
Hair care, hosiery, cosmetics	_____
Property insurance	_____
Books, papers, magazines	_____
Gifts	_____
Entertainment	_____
Church/dues/contributions	_____
Tuition/lessons	_____
Student loan payments	_____
TOTAL EXPENSES	$_____
Total Net Income (from above)	$_____
Total Expenses (from above)	$_____
Difference (+ or -) Between Your Income and Your Expenses (Spendable Income)	$_____

Your spendable income is what you can use to improve your life—go back to school, get a car, buy furniture or appliances, save for a down payment on a condo or house, or take a vacation. If you acquire debts for these items, either by installment purchases, unsecured loans, or credit card charges, you need to add up your debts and add them to your monthly budget.

Creditor	Account #	Monthly Payment	Total Balance

TOTAL $_____

Your final budget will look like this:

Spendable Income	$_____
Minus Monthly Creditor Payments	$_____
Remaining Spendable Income	$_____

Living within Your Budget

Remember that you are not a slave to your budget. The purpose of a budget is to give you a rough idea of what you really do with your money, and how much you have left over to buy those things you've been dreaming of. Also remember that you will probably have to change your budget from time to time—when your income goes up or down, or when you take on new obligations. But if you have made a realistic budget, stick to it. If you buy an expensive item without thinking and wreck your budget, you may have to suffer through a very difficult time while you are paying off bills.

Shopping: Cash or Credit?

Cash is Cheaper

When there's something you need or want, you must decide whether to use cash or credit. If the item you want is something you could save up for and buy with cash in a few months of simple living, you should not even consider buying on credit because it's the most expensive way to shop. Credit cards charge interest for lending you money, thus making the things you buy more expensive. For clothing, small equipment, trips, and Christmas presents, you should pay cash. When you're starting out, buying second-hand furniture with cash is a good idea.

Credit Can Be Tricky

For big ticket items, like cars or major appliances, most people need to get a loan or buy on an installment plan. But using credit can be tricky and you need to know the pitfalls. How do you avoid the traps?

Shop Around for the Best Total Deal

You would like a low price, a low interest rate, low monthly payments, and a long time to pay back the loan. But it is hard to find those four goodies in the same package. A low price and small monthly payments usually mean you are going to pay a very high interest rate over a long period of time. When you buy something at a high interest rate (APR), you can end up paying a lot more for the item over the term of the loan. (See the example below.)

Understanding an APR

An APR (annual percentage interest rate) is the amount a lender charges for the money you borrow. An APR includes the interest on the loan and additional charges, and your contract includes the amount you must pay over a specific period of time.

The higher the APR, and the longer the term of the loan, the more you'll be paying in finance charges.

Two examples:

1: You borrow $1,000 at a 12 percent APR for 15 years: Your monthly payments are $12. Over the 15-year term of the loan, you will pay $1,160 in interest ($12 x 180 months), in addition to the $1000 you borrowed.

2: You borrow the same $1,000 at 12 percent APR for four years. Your monthly payments are $26.33. Over the four years, you will pay only $264 in interest on the loan, a savings of $896 ($1160- $264).

[1]Reprinted from *Everybody's Money* magazine, 1992, with permission.

A low APR (like a car deal with a 4.8 percent APR for 48 months) probably means that the dealer is charging a higher price than other dealers. So you need to check all four factors—price, monthly payments, the APR, and the length of the loan—when making a decision about a major purchase.

Also, the rate of interest on a loan can be *fixed* or *variable.* On a variable loan, the interest rate can go up or down over the course of the loan payments, while a fixed rate doesn't change during the life of the loan. You need to know whether your interest rate will vary before you agree to a payment plan you can't handle if interest rates go up. The most important thing is to make sure you can afford the monthly payments after paying for all your basic expenses.

Tell the Truth: Once you are ready to take out a loan or use a credit card, you'll be asked to fill out a form that discloses your income, expenses, and debts. Be sure to tell the truth; otherwise you'll have a hard time ever getting credit.

Get It in Writing: Make sure the salesperson gives you a paper with the cost, interest rate, monthly payment amount, and the number of monthly payments you must make. You don't want any misunderstandings about what it's going to cost you and how long it's going to take to pay off your debt.

Don't Rush: If you are dealing with a pushy salesperson, don't be bullied into wrapping up the transaction. It's better to walk away and get some advice before you sign up.

Cancellation Rights: Some purchase agreements allow you to cancel the deal within a fixed period of time—usually a week, sometimes more. So if you have any doubts about the value of what you bought, or about your ability to pay back the loan, you should exercise your right to cancel while you still can. If you discover a problem after the cancellation period, you still may be able to return the item and get your money back, provided you approach the merchant in a polite and responsible way.

When You are Turned Down for a Loan

A loan officer or merchant can turn down your loan or installment purchase application without giving you any reasons. Often, loan or purchase applications are turned down because the bank or merchant ran a credit check and found that you haven't paid your bills on time or have a big debt you didn't list on your application form. But sometimes credit information can be wrong, or simply out of date.

Getting Your Credit Report

If you want to find out where you stand before you apply for a loan, find out why your credit application was rejected, or challenge misinformation in your report, you can call the two national credit bureaus with 800 numbers to request a copy of your credit report. You can usually get your first report free, provided you ask. You may have to pay a small fee if you ask for a second report from the same company.

Credit Bureaus

TRW-Complimentary Report
P.O. Box 2350
Chatsworth, CA 91212-2350
1-800-392-1122

Equifax Credit Info
Consumer Relations
P.O. Box 740241
Atlanta, GA 30374-0241
1-800-685-1111

Beware of Credit Repair Clinics

If you have a bad credit report, don't be tempted by advertisements in the newspaper or yellow pages for Credit Repair Clinics that promise to remove negative information from your credit report. If the information is true, even the fee you pay to these clinics can't change it. And if it isn't true, you can clear it up for free.

Paying Your Bills

Paying your bills on time helps you establish a credit rating and saves you money because you avoid penalties for late payment. If you don't have a lot of money to spend on fun, you don't want to waste it on late charges for utility bills, or whopping interest payments on credit card debts.

When you pile up a credit card debt, you may think you can solve the problem by paying only the required minimum on your credit card, but that is a sure sign that you are headed for a serious money crisis. If you don't take action right away, you could risk your reputation as a credit-worthy person, or even worse, have to declare bankruptcy, which would hurt your chances of getting a good job or a loan for many years to come.

When You Can't Pay Your Bills

Emergencies happen. You lose your job. Your favorite uncle dies in another state and you have to pay for the cost of getting to the funeral. Your child gets sick and you pile up a huge medical bill. The car that gets you to work breaks down and needs $600 worth of repairs, which you charge on your credit card. Your budget is wrecked and you don't have enough money to pay your landlord, or the electric company threatens to shut off your power.

Don't panic! Make a list of the people you owe, talk to each credit manager, account manager, or loan officer, and tell them

your circumstances. If you offer a realistic plan for paying your debt, they will probably agree to stretch out your payments so that you can survive the crisis.

If the strategies listed above do not work, contact The National Foundation for Consumer Credit at 1-888-269-6251 any time of the day or night.

The NFCC is supported by creditors and maintains offices all over the United States. They will put you in touch with a Consumer Credit Counseling Service in your area. Your local CCCS will work on the problem with you, negotiate with creditors on your behalf, or help you arrange for a loan to consolidate your debts and stretch out the payments. This service is free.

Beware of Finance Companies

If you are in a panic about your debts, don't be tempted by advertisements or yellow pages listings from finance companies that offer to consolidate your debts. Finance companies charge very high interest rates, and will likely put you further in debt.

Paying Your Taxes

If you work at a salaried job and your employer deducts your taxes from each paycheck, you probably won't owe the government any money at the end of the tax year and may even be excused from filing a tax return. If you are single and earn less than $6,400, are a single parent earning less than $8,250, or a couple earning less than $11,550, you won't have to file an income tax form. Otherwise, you must file an income tax return even if all of your taxes have been paid by your employer.

If you are self-employed or work part time and your employer doesn't deduct for income taxes, you have a more complicated situation. You will have to file forms with the IRS every three months, and depending on what you earn, and may have to pay one-quarter of what you will owe at the end of the tax year.

Whether you pay your taxes through monthly payroll deductions or in quarterly installments, you may be eligible for a tax refund if:

- Your income is modest (the Earned Income Tax Credit),
- You pay for child care while you work, or
- You had large medical expenses

The Earned Income Tax Credit: Money in Your Pocket

The Earned Income Tax Credit (EITC) is designed to help people who work but who earn very little money.

- If you have no children, were over age 25 in 1995, and earned less than $9,230, you would receive a federal payment up to $314.
- If you lived with one child in 1995, and your family earned less than $24,396, you would receive up to $2,094.
- If you lived with two or more children in 1995, and your family earned less than $26,673, you would receive up to $3,110.

You'll probably need to talk to an expert who can help you apply for the deductions you're entitled to. Fortunately, there are free sources of help (see next section).

Free Help With Your Taxes

Hiring an expert to prepare your taxes can cost $25 to $65, or more. If you are in a hurry to get your refund and apply for a "quick refund," it can cost you an additional $30. You can avoid those costs by seeking help from VITA, which stands for Volunteer Income Tax Assistance.

VITA is a free service sponsored by the Internal Revenue Service. Volunteers who are trained by the IRS help low- and moderate-income workers fill out their forms and apply for the Earned Income Tax Credit. Many VITA sites are equipped to file tax forms electronically, which helps you get a faster turn-around on your refund.

To find the VITA tax preparation site nearest you, call the IRS at: 1-800-829-1040

This number is usually busy, so you have to be patient. If you run out of time or patience, and are willing to pay for a long distance call, try calling:

Earned Income Credit Campaign
202-408-1080

Living with Your Family

A very large number of young people live at home because they don't make enough money to live on their own. And a

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very large number of young people who have been independent for a while come up against circumstances that force them to move back in with their families.

If you are out of work and looking hard for a new job, or if you are a full-time student, your family probably won't charge you for room and board. But if your parents think you are not trying very hard to get a job, they may expect you to take a job—any job—to show that you are serious about becoming independent. If you are working and spending your money on clothes or entertainment, rather than your share of the household's rent and food, your parents may begin to wonder when you are going to carry your fair share.

Paying Rent and Living with Roommates

Sharing an apartment or a house with other people can cut down on your monthly outlays, leaving you money for savings, schooling, or purchases. But there are always problems, too, and if you aren't careful, you can be forced to move out when you didn't want to, or else become the victim of an irresponsible roommate.

Here are some tips for living with roommates:[3]

- ★ Make sure that everybody's name is on the rental lease so that you don't stuck with the whole rent if one of your roommates doesn't come up with his or her share.
- ★ Arrange with the phone company for each roommate to have a digit code for long-distance calls. AT&T provides this service at no cost (call 1-800-222-0400 to set up the system). When the phone bill comes, each roommate's calls will appear separately and there should be no arguments about who made the calls.

[3] The advice on living with roommates comes from "Kiplinger's Money Smart Kids," by Janet Bodnar, Kiplinger Books, Washington, D.C., 1993.

- ★ Have household rules and agreements about who is responsible for keeping up the house and lawn.
- ★ Arrange a bill-paying system with your roommates. For example, one person can be in charge of collecting money from the other roommates and paying the bills, or each roommate can be in charge of a separate bill, like electric, phone, and water. Having household bills in your name is also a good way to build up your credit rating.

Important Numbers for Advice and Help

Here's a recap of some useful sources of financial assistance. Good luck in managing the money you work so hard to earn!

Credit Union National Association: 1-800-356-9655 x4064
Ask for a directory of credit unions in your area and general information about eligibility to join one.

National Foundation for Consumer Credit: 1-888-269-6251
Ask for the number of a local Consumer Credit Counseling Service for advice on credit purchases and help with debts and loan consolidation.

Internal Revenue Service: 1-800-829-1040
Ask about the Earned Income Tax Credit and the number of your nearest VITA tax preparation center.

Earned Income Tax Credit Campaign: 1-202-408-1080
Ask for the number of the nearest VITA tax preparation site if you can't reach the IRS number.

AT&T: 1-800-222-0400
Ask to set up a system that provides a long-distance dialing code and separate billing for each member of your household.

Financial Assistance Center,
U.S. Dept. of Education: 1-800-433-3243
Ask for *Student Guide to Financial Aid* and application forms.

Acknowledgements

Bodner, Janet, *Kiplinger's Money Smart Kids (And Parents, Too!)*, Washington, D.C.: Kiplinger Books, 1993.

Credit Union National Association, Inc., P.O. Box 430, Madison, WI 53701

"Credit Wise: Your Guide to Trouble-free Credit," Office of Fair Trading, United Kingdom.

Everybody's Money magazine, P.O. Box 430, Madison, WI 53701

Pickett, Vicki, Montgomery County Employees Federal Credit Union, Rockville, Maryland.

Read, Laura, *The Young Person's Guide to Money.* Leicester, England: National Youth Agency, 1994.

Wancheck, John, Earned Income Credit Campaign, 777 North Capital Street N.E., Suite 705, Washington, D.C. 20002.

Willcox, Edward, Washington State Employee's Credit Union, Olympia, Washington.

We thank the following young people who "road tested" this guide to make it more useful to their colleagues nationwide:

Maurice Brinson (Washington, D.C.), **Bryan Carome** (Sasha Bruce Youth Work, Washington, D.C.), **Phillip Lovell** (Indianapolis, IN), **Meredith Miles** (Carmel, IN), **Ariel Perez** (Brooklyn, NY), **Melody O. Settles** (Washington, D.C.), **Candice Tollin** (Washington, D.C.)

AMERICAN YOUTH POLICY FORUM PUBLICATIONS

Some Things DO Make a Difference for Youth: A Compendium of Evaluations of Youth Programs and Practices

196 pages. $10 prepaid.

This handy, user-friendly guide summarizes 69 evaluations of youth interventions involving mentoring, employment and training, education and youth development for policymakers and program practitioners as they craft strategies affecting services and support for our nation's youth, particularly disadvantaged young people. What works and why? ($6.00 each in quantities of 100+)

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by Glenda Partee **72 pages. $5 prepaid.**

Observations of an 18-member U.S. delegation of federal and state policy aides, researchers, program practitioners and representatives of non-profit youth-serving national organizations about policies and practices in England to reform the education system, support youth work and the delivery of services, and prepare young people for the workplace.

Preparing Youth for the Information Age: A Federal Role for the 21st Century

by Patricia W. McNeil **64 pages. $5 prepaid**

The author argues for high expectations for all students, offers a compelling vision of a high school "redesigned for success" and outlines strategies to support youth in their learning. Offers insights into developing state and local consensus on results, improving accountability at the state and local level and improving school quality.

Revitalizing High Schools: What the School-to-Career Movement Can Contribute

by Susan Goldberger and Richard Kazis **38 pages. $5 prepaid.**

The authors argue that school-to-careers must be an integral part of any high school reform strategy if it is to achieve scale and be of maximum benefit to young people, employers and educators. (Co-published with Jobs for the Future and the National Association of Secondary School Principals)

Opening Career Paths for Youth: What Can Be Done? Who Can Do It?

by Stephen F. and Mary Agnes Hamilton **16 pages. $2 prepaid.**

The creators of Cornell University's Youth Apprenticeship Demonstration Project share practical lessons in implementing essential components of school-to-career programs. Down-to-earth!

School-to-Work: A Larger Vision

by Samuel Halperin **24 pages. $2 prepaid.**

Lively discussion of the federal school-to-career movement, what school-to-work is not, and what it could be when viewed as a systemic, comprehensive, community-wide effort.

Prevention or Pork? A Hard-Headed Look at Youth-Oriented Anti-Crime Programs

by Richard A. Mendel **48 pages. $5 prepaid.**

Surveys what is known about the effectiveness of youth crime prevention programs. What works and what does not? Readable and helpful in crime prevention funding and youth development.

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by Richard A. Mendel **28 pages. $5 prepaid.**

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Dollars and Sense: Diverse Perspectives on Block Grants and the Personal Responsibility Act **80 pages. $5 prepaid.**

Eleven authors offer a wide spectrum of opinion on improving our country's efforts to promote needed support for America's children and families, particularly as affected by welfare reform. (Co-published with The Finance Project and the Institute for Educational Leadership)

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Twenty-five authors ask what must be done to promote healthy youth development, build supportive communities and reform and link youth services. (Co-published with the Center for Youth Development and the National Assembly)

Improving the Transition from School to Work in the United States

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Detailed analysis of the transition of American youth from school to employment. Offers strategies for improving career preparation and recommendations for federal policy. (Co-published with Jobs for the Future)

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Discussion of educational theory and practical application by six experts at the forefront of research and practice on the front lines in implementing youth apprenticeship. Outlines specific approaches and lessons learned from experience in the U.S. and abroad.

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Offers both a big-picture analysis of comprehensive, community-based initiatives and a more focused look through the lens of one major initiative in eight Chicago neighborhoods.

What It Takes: Structuring Interagency Partnerships to Connect Children and Families with Comprehensive Services

by Atelia Melaville with Martin Blank **56 pages. $3 prepaid.**

Guidance for schools, social welfare agencies and CBOs on how to combine forces to advance the well-being of children and families. Practical and experience-based!

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